

# ***What's New for Nonresidents and Part-Year Residents***

**STANDARD DEDUCTION**—For 2004, the standard deduction is increased to \$1,870.

**RETIREMENT INCOME**—For 2004, the retirement income exclusion is increased to \$40,200.

**INTERNAL REVENUE CODE**—Kentucky's income tax law is based on the Internal Revenue Code in effect December 31, 2001, exclusive of any amendments made subsequent to that date, other than amendments that extend provisions in effect on December 31, 2001, that would otherwise expire. Changes to federal income tax law made after the Internal Revenue Code reference date in KRS 141.010(3) do not apply unless adopted by the Kentucky General Assembly. The following Acts and related provisions do not apply to Kentucky returns. Bullets describe Kentucky tax treatment for some of the provisions.

- **Victims of Terrorism Tax Relief Act of 2001** signed on January 23, 2002.
- **Job Creation and Worker Assistance Act of 2002** (JCWAA) signed on March 9, 2002.
- **Trade Act of 2002** signed on August 6, 2002.
  - Reduce health insurance premiums by the amount of Health Coverage Tax Credit claimed on federal Form 8885, Health Coverage Tax Credit, and any advance payments from Form 1099-H, box 1, before deducting on Line 60.
- **Jobs and Growth Tax Relief Reconciliation Act of 2003** (JGTRRA) signed on May 28, 2003.
- **Military Family Tax Relief Act of 2003** signed November 11, 2003.
  - The excludable amount of military death benefits is \$3,000 for Kentucky.
  - The above-the-line deduction for overnight transportation, meals, and lodging expenses of National Guard and Reserve members who must travel away from home more than 100 miles and who must stay overnight is not allowable. Kentucky National Guard and Reserve members may deduct expenses as a miscellaneous itemized deduction. Form 2106 required.

- **Medicare Prescription Drug, Improvement, and Modernization Act of 2003** signed on December 8, 2003.

- A deduction is not allowed for the amount contributed to a health savings account for an individual.
  - Earnings on the health savings account are taxable to the individual.
  - Amounts distributed from the health savings account are not taxable to Kentucky, regardless of whether or not the amount is used to pay medical expenses.
  - Medical expenses paid with a distribution from a health savings account are allowed in the computation of Kentucky itemized deductions.
  - A rollover from an Archer medical savings account to a health savings account results in a taxable transaction.
  - Amounts contributed by an employer to a health savings account for an employee are taxable wages to the employee.
  - Amounts contributed to a health savings account pretax by an employee under IRC Section 125 (cafeteria plan) are taxable wages for Kentucky.
- **Working Families Tax Relief Act of 2004** (WFTRA) signed October 4, 2004.
    - Teacher's classroom expense deduction is not allowable for Kentucky income tax purposes.
  - **American Jobs Creation Act of 2004** enacted October 11, 2004. The Department of Revenue is currently reviewing the provisions of the Act.

**SERVICEMEMBERS CIVIL RELIEF ACT** (SCRA) signed on December 19, 2003. This Act is not included in the Internal Revenue Code; therefore, Kentucky conforms to all provisions. No adjustments are necessary, as Kentucky's tax rates for a nonresident are based upon taxable income, which does not include the military income of the nonresident.

**TOBACCO QUOTA BUYOUT**—Proceeds from a national tobacco buyout are exempt from Kentucky income tax.